RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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September 21, 1983 **LETTER 870**

Sept. 9 DJIA 1239.94; PTI 1743; A-D Ratio -14.40
Sept. 16 DJIA 1225.71; PTI 1745; A-D Ratio -14.49

THE MARKET: Everybody is nervous because the Dow hasn't sailed over its all-time high of 1248.30, confirmed with a Transport leap over its own record high of 590.63. But the stock market never likes to "jump through the hoop" – even during a primary bull market–and even though millions of stockholders would like it to. No. the market would much rather keep everyone guessing, hanging onto the edge of their seats and biting their nails.

After climbing over 1248.30 on September 12 and looking like a tiger, the market reversed itself the same day and ended lower. The decline continued through the week. This frustrating turn of events served as perfect fodder for the bears and the disbelievers. One well known analyst was quoted in the WSJ as saying that the market "looked like death warmed over."

Maybe so, but this is still a primary bull market, and as such it is entitled to do as much backing and filling, surging and sinking, as it wants. Remember the momentum study in the last Letter, a study that showed that following the 1943 momentum surge the Dow took 11 months to better its preceding high? The momentum surge that ended in July, 1983, was comparable to the 1943 momentum surge, and comparable market action now might mean that the post-momentum consolidation could carry into mid-1984. Can you imagine the anguish, aggravation and even boredom that would accompany an eleven month "layover" (i.e., consolidation in this area?) Personally, I don't think this consolidation is going to last nearly that long–but it would not be without precedent.

I want to warn subscribers again about the fruitlessness of trying to pick this bull market apart, day by day, hour by hour, indicator by indicator. The broad sweep of the stock market is UP, and that's the single most important concept to keep in mind. The Primary Trend Index (PTI) has been saying "up" for over a year–and it's still telling the same story.

But for you and me the operative word over the coming weeks (and maybe even months) will be PATIENCE. The bull forces will reassert themselves when they're ready–which will probably be at a time when it is most inconvenient for the greatest number of investors.

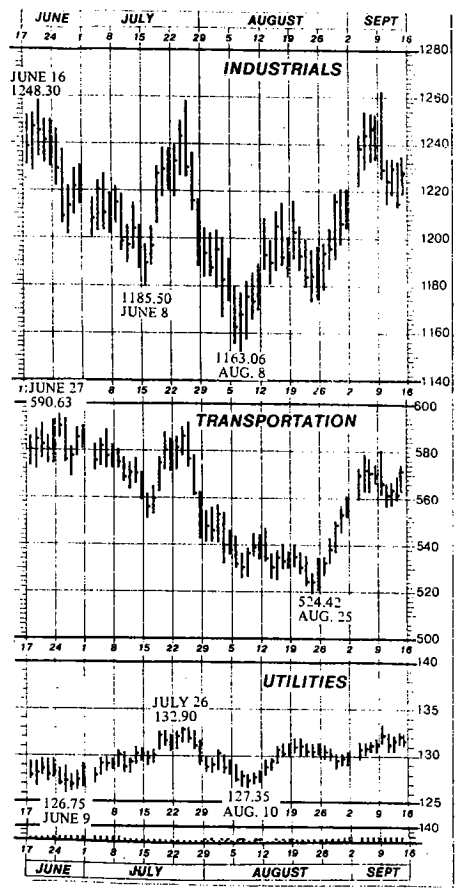
(Technical note:) The failure of the Dow to better the 1248.30 record high did serve to AVOID a price-breadth non-confirmation. And that's all to the good.

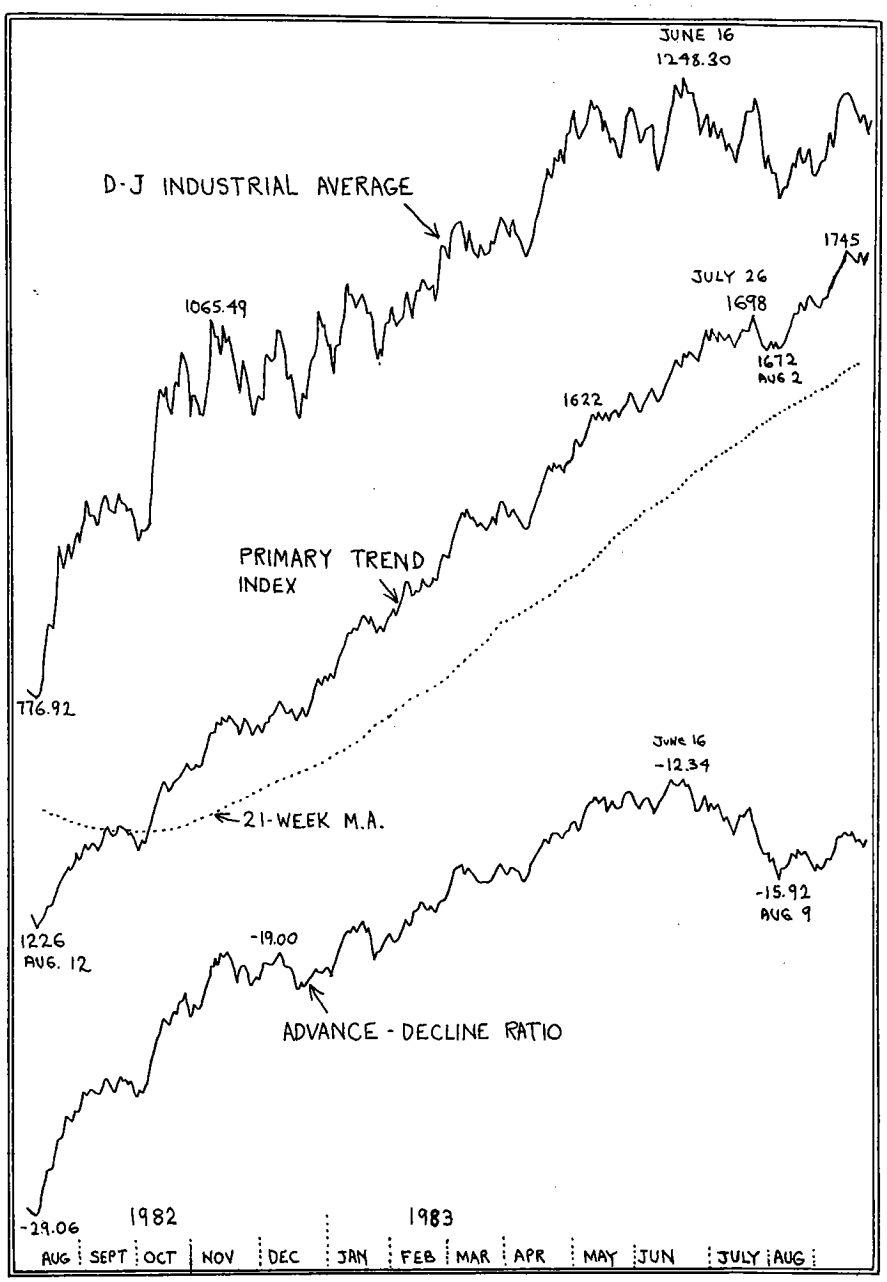
THE PICTURE: I have written this before, but I want to repeat it. One of the secrets of deciphering (i.e., analyzing) the market is to know WHICH INDICATORS TO THROW OUT at any given time. That may sound a bit cynical, but it is a workable truth. How do you know which indicators to jettison? One has to go by the seat of the pants–by intuition. I know from past experience that when I get TIRED of reading about any set of indicators, when I yawn in the face of a certain type of analysis, when everyone is quoting one set of indices, when that occurs I know I am ready to ignore those indicators.

Now that is admittedly a very unscientific way to operate. Yes, I'll admit it, but it's a "seat of the pants system" that has worked for me over the years. All right, you retort, what indicators are you skeptical of now? And my answer (I've written about this many times in recent Letters) is that I am skeptical of the so-called sentiment indicators. Everyone and his brother now follows "the percentage of advisory services that are bullish or bearish." Everyone now follows the put-to-call ratio. Everyone today follows the public shorts vs. the specialist shorts. These are the "in" studies for the early 1980s. And frankly, I've been wary of them.

I'm wary of the sentiment studies at this time for two reasons: (1) as I say, too many people follow them. And (2) This is a primary bull market, and in primary bull markets the public (and therefore the sentiment indices) tend to *stay bullish for long periods of time.*

So what's the answer to my skepticism about the sentiment indices? My answer is that I turn to the action of the market itself. Going back to classic Dow theory, we should remember that the action of the Averages (and the market) contains EVERYTHING known about stocks, bonds, sentiment, news events, world economic trends–the works. All of that, ALL THE KNOWLEDGE, is built into the price structure. That's what Hamilton taught, that's what Rhea taught, and I believe it.





to be reliable. In other words, an index of eight basic technical indices and averages will not be deceptive or subject to manipulation.

I developed the PTI during the late-1960s, and I have put it to use (tracked it) on a daily basis ever since 1971. The PTI has kept me out of trouble time after time, and it still seems to be doing just that. To put it another way, my main mistakes over the last 13 years have occurred when I did not believe the PTI or when I did not have the patience to allow the PTI to tell its own story.

Now it's true that the PTI is not talking all the time. But it is also true that when the PTI is in a decisive rising trend the market will be bullish: a persistent rising trend in the PTI always works to drive the general market higher. A corollary of that observation is that the market will not fall apart while the PTI is in a rising trend. The Averages may not go to new highs while the PTI is climbing, but they also WILL NOT FALL APART when the PTI is bullish. The reverse of the above is true when the PTI is in a decisive declining trend.

The PTI at times leads the market, at times it lags the market and at still other times it is coincident with the market. For that reason I use the 21-week (exponential) moving average of the PTI to define the trend of the PTI (all this does, of course, is give the PTI some leeway in defining the trend). And as you can see on the chart, the PTI has remained bullish through all the action since last May. More recently the PTI has not only held stubbornly above its 21-week moving averages, it has pushed to successive new record highs.

As late as September 7 the PTI rallied to a record high of 1745. Since then, amid market weakness, the PTI has backed off to 1737, but that is hardly an impressive decline. The fact is that the PTI is still within a mere 8 points of its record high. Any minor rally, in fact, would put the PTI in record high territory again.

Remember, all the additional studies, all the sentiment studies, the economic studies, the buying power and selling pressure studies, all of these were developed to augment the original studies of the Averages under Dow Theory. Sometimes these additional studies are a great help–and at other times they are deceptive. But I personally place by far the greatest emphasis on the action of the market itself. That's what I trust most, particularly at a time (such as NOW) when most of the analysts are scrutinizing almost everything but the action of the market.

My proprietary index, the Primary Trend Index (PTI), is an amalgum of eight action-of-the-market indices. I developed the PTI because (1) I wanted an indicator which would present, on a daily basis, the weight of the market action, (2) I wanted an indicator which was not public knowledge, on the theory that what everyone knows and follows tends to be discounted (and therefore rendered useless) by the market itself. I use the PTI on the theory that the D-J Industrial Average taken by itself can be deceptive, the bond average taken on its own can be deceptive, but an amalgum of eight critical indicators will tend

PRIMARY TREND: I've probably written more on the primary trend of the market than any other subject over the last 25 years. But somehow, I find that most subscribers fail to grasp the full meaning of the simple factual statement: "This is a bull market."

All right, just what does it mean? A bull market is a tidal force, and usually a world-wide tidal force. As long as the market is bullish, the tide is coming in. The tidal pattern is not always obvious and it can sometimes be deceptive. Nevertheless, as an investor, you must understand one thing. And that is that a bull market will (despite hesitations, corrections and even panics) push to successive new highs. It will move to new highs until it is finally exhausted.

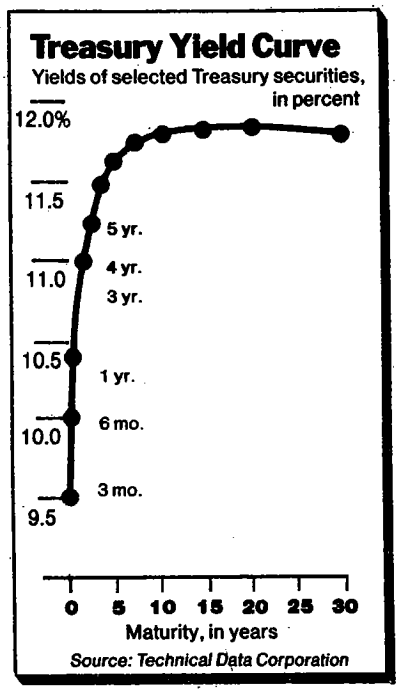
This is the most important concept there is for the investor. For the tidal concept means that the investor can buy a portfolio of stocks, and he can sit with those stocks until the bull market appears to be "blowing its top" (and the final top is al-

ways accompanied by froth, speculation, optimism and high excitement). There is nothing as comforting and as strengthening as the knowledge that "This is a bull market." It means that you can buy laggard stocks, you can buy too late, you can goof in any number of ways–and the odds are that the primary bull market will ultimately bail you out.

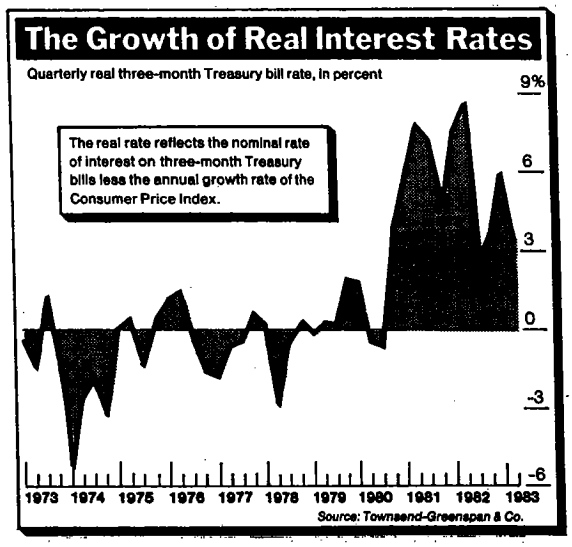
Conclusion: In my opinion, and judging from my studies, we are in a bull market. Therefore, in due time the major averages and MOST STOCKS should rise to new bull market highs. I don't care what today's news is, I don't care what your broker or banker says, I don't care what today's market did. The operative fact is that this bull market will ultimately express itself, and it will express itself FULLY. That means that we sit tight with our stocks and allow the *tidal force to work for us.*

INVESTMENT POSITION: Worries abound aplenty, and if a "bull market climbs a wall of worry" this bull market is already well stocked. I continue to think that investors are more worried about a reaction than they are about making bull market profits. Stay with the defense stocks, and with your no-load mutual funds. A few funds that have done particularly well are Sequoia Fund (212/245-4500), Fidelity's Magellan Fund (800/225-6190), Explorer Fund (800/523-7910), Mutual Shares (800/221-7864).

THE CURVE: Those who follow bonds commonly refer to the yield curve. The yield curve is simply the line which connects yields at different maturities. In the "normal" or positive yield curve, the farther-out maturities provide higher yields. This is considered normal, since the longer one has to hold a given bond–the greater the risk. Therefore, the lender must offer a higher yield on the far-out maturity because of its greater risk. This syndrome produces the positive yield curve. And that is exactly what you see on this current chart with the 91-day (3-month) T-bills yielding a bit over 9% and the maturities of 10 years up to 30 years pushing near the 12% range.



Occasionally, we have a situation where money (for whatever reasons) becomes tight. This is usually referred to as a credit crisis. When that happens the pressure on the near-term turns white hot, and the yields on T-bills and near-term maturities go through the roof. In the worst pressure situation, the short-term yields climb above long-term yields as the demand for money, any kind of money, becomes irresistible (at such times the only money available is short-term). When the near-term yields climb above the longer-term yields we have what is termed an "abnormal" or negative yield spread. Hopefully, we won't be seeing that for quite a while.

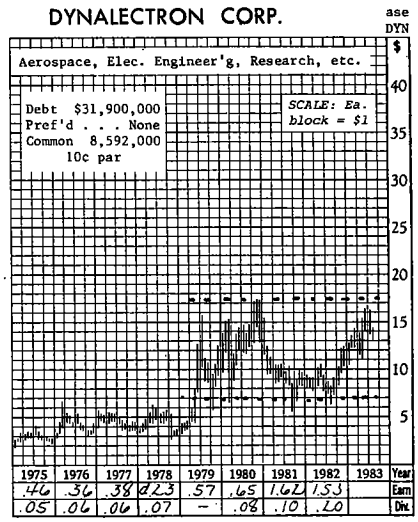

The Growth of Real Interest Rates
Quarterly real three-month Treasury bill rate, in percent
The real rate reflects the nominal rate of interest on three-month Treasury bills less the annual growth rate of the Consumer Price Index.
9%
6
3
0
-3
-6
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983
Source: Townsend-Greenspan & Co.
The New York Times / Sept. 12, 1983

Speaking of interest rates, this chart from the Sept. 12 NY Times shows real interest rates on the 91-day Treasury bills. Following years of negative yield, the T-bills are now offering attractive real interest rates, and, of course, the T-bonds are offering even higher real yields (almost 6%).

Despite a chorus of pessimistic forecasts on both the Federal deficits and the bond market, I am impressed with the actual bond action. I believe that the deficits have been built into the price of bonds and that any good news on the deficit or the inflation front could send bonds sharply higher. As explained in recent Letters, a higher bond market could send stocks sharply higher. And if any surprises come on the interest rate front, my guess is that they will come in the form of lower (not higher) rates .

My suggestion: The long bonds, the Government 12s of 2008, are attractive for yield and appreciation. These bonds are heavily traded, are totally liquid, and are widely quoted.

DEFENSE STOCKS: The page 5 chart shows tabulations on my list of recommended defense stocks. I believe Dynalectron (Amex) is particularly in a buying range. This company has been building up its backlog of orders, and the stock has backed off into an attractive price zone. The company is buying back 1 million shares of its own stock. But more interesting, a group of its executives (through an investment partnership) have purchased



(cont. on pg. 5)

DEFENSE SECTION

Most or all of the defense information (but not stock information) is based on an exclusive arrangement with **Mr. Melvyn Lippman of US Organization Chart Service**, La Jolla, California.

Question: Mel, I'm really pleased to include your section in my Letters because I think what you are reporting is, without a doubt, the biggest "coming story" of the 1980s and beyond. It's a story that is going to have profound effects on every one of us in the Free World. But to get back to the story, let me ask you this: in view of the tragic events of the past few months, could you tell us something about the more important Soviet allies, or should I call them satellites?

Answer: The balance of the 1980s and probably through the mid 1990s will be an inherently unstable and extremely dangerous period for the United States. This is an absolute certainty. The potential for armed conflict is exceedingly high and is increasing. The potential to lose an armed conflict is presently low–but *now starting* to increase. In addition to the Soviet Union, the number of adversaries which America might have to face has increased and is increasing. Included in this group are those countries which are surrogate forces of the USSR and therefore at their call.

The following review of military forces is not an inclusive one, but rather it is intended to highlight for you the major threats to the United States, its citizens and property in and throughout Central America and the Asiatic Basin and to highlight major military powers such as China whose military strength warrants attention.

Perceptions and Objectives:

The Peoples Republic of China–China's concern over Soviet encirclement–both directly and through Russia's ally, Vietnam, has been the motivating force in China's efforts to improve her relationships with the U.S. This new relationship could change rapidly and can be considered dicey at best. China has developed the full range of military forces. Nevertheless these forces are limited by a technological and industrial base which produces weapons systems at least a generation behind those of the U.S. and the Russians! Just to achieve today's state of the art within the next 10 to 20 years, China must leap over decades of technology. China's forces, collectively known as the People's Liberation Army, are not suitable to modern, high-intensity conflict. China's ICBM force presently consists of CSS-3 and CSS-4 missile systems with a range of 7000km. Their strategic defensive forces would have difficulty in countering current external threats to its security. Strategic defense forces consist of a radar network for air surveillance and control, and aircraft, inadequate electronic equipment and armament and rigid ground control intercept techniques. Its fighter interceptors are predominantly gun-equipped as opposed to missile capabilities. It will take until the late 1980s for China to have new interceptor aircraft with more advanced avionics and weaponry. China augments SAM (Surface to Air Missiles) coverage with conventional AAA (Anti-aircraft artillery). Properly motivated, China could have a fairly modern military by the beginning of the next century.

VIETNAM

The People's Army of Vietnam is the second largest and most combat-experienced military force in the region. The Vietnamese Army has an estimated strength of 700,000 personnel backed by 50,000 paramilitary regional forces and an armed militia of about 1,500,000. There is a mobilization pool of about 3,000,000. Major Army units include 27 infantry divisions and three training divisions. Some 80,000 troops are deployed in Laos. The Army is well-trained and well-equipped, a combat-effective force capable of sustained coordinated conventional operations. It is capable of repelling an attack by neighboring countries, including China and is also capable of invading other Southeast Asian nations and defeating their military forces in a conventional warfare situation. The Vietnamese Navy has 6,000 men and is a small coastal patrol force. The Vietnamese Air Force is now a significant fighter and fighter-bomber force composed of a mixture of high–and medium–performance jet aircraft. During the Vietnam conflict, Vietnam gained a high degree of combat air defense experience. The greatest strengths of the Vietnamese Air Force are combat experience and a large aircraft inventory.

NORTH KOREA

The North Korean Army (NKA) is deployed at 35-40 infantry divisions totaling 700,000 personnel. NKA has the capability of launching an attack with little advance warning. The North Korean Air Force has a numerical advantage in jet fighter aircraft over the Republic of Korea (ROK) Air Force. Their fighter inventory includes the older MiG-15s and Mig-17s and the more sophisticated Su-7s and MiG 21s. The North Korean Navy is superior to that of the ROK not only in absolute numbers but also in firepower and material readiness. With 450 fighting ships, including 16 submarines, 18 missile attack boats and 90 amphibious warfare craft. The NKA has offensive capabilities including the mining of key South Korean ports. North Korean shipyards are constructing additional missile attack boats and new classes of amphibious landing ships on an accelerated schedule.

CUBA

Cuba has the strongest military forces in Latin America and has the largest percentage of its population serving in the military of any Latin American country. It has dedicated significant amounts of its resources to the modernization and professionalism of the armed forces and to the maintenance of a well prepared reserve force. The Cuban Army has an estimated strength of 185,000 regular and ready reservists. Approximately 35,000 Cuban military personnel are serving overseas. The Cuban Air Force contains about 15,000 personnel with slightly over 200 MiG fighter aircraft, including the sophisticated MiG 21s and MiG 23s. The fighters are divided into all-weather and day fighter squadrons. The Cuban Air Force now has the Russian An-26s which gives Cuba the capacity to paradrop up to 760 troops in one airlift. Further, under optimum conditions, and using all aircraft in the commercial and air force inventories, Cuba could move several thousand lightly armed troops in a single airlift to most countries in the Caribbean basin in *one day*. Cuban air defense systems have SA-2 and SA-3 sites (highly sophisticated surface to air missile systems) protecting key military installations. The Cuban Navy took delivery of its first two FOXTROT Russian submarines in 1978. The navy with a personnel strength of 10,500 has about 120 patrol craft. The backbone of their fleet is the KOMAR guided missile patrol boat and the OSA which are armed with STYX surface-to-surface missiles.

Observations and Perceptions: (cont. from pg. 4)

None of the above countries has the present capability to win a direct confrontation with the US. Nevertheless, excluding China, they do have some interesting similarities. All are adversaries of the United States. All are capable of completely defending themselves in their regions. All are capable of attacking their neighbors and *winning*. All have shown a willingness to use their military force. All are capable of militarily controlling their respective regions. All have increasing military capabilities. All are completely dependent on the Soviet Union for their military might. All are allies and/or surrogates of the Soviet Union. And all *will respond to any* present and future calls from the USSR.

		Our Buy Price	Current Price	
NYSE	Harris Corp. (HRS)	49½	36 5/8	Defense stock average based on 1 share of each this week is 372
NYSE	LFE (LFE)	11 7/8	15 7/8	
NYSE	Planning Research (PLN)	14 3/8	15	
NYSE	Scientific Atlantic (SFA)	19	17 3/8	
NYSE	Tracor (TRR) (x1.25)	28 3/4	32	
NYSE	Electronic Assoc. (EA)	13	13 5/8	
NYSE	Varo (VRO)	19	18½	
NYSE	Bolt Beranek (BBN) (x1.50)	37	83 1/4	
NYSE	BDM (BDM) (x2)	43½	86 3/4	
AMEX	Dynalectron (DYN)	12 3/4	13½	% Increase is: 33.8%
AMEX	Moog B (MOGB)	15½	19 3/8	
AMEX	Systems Planning (SPZ)	7	11 1/4	
AMEX	American Science (ASE)	10½	9 3/4	
	Original purchase price	278		

(cont. from pg. 3)
roughly 10% of the stock. The page 3 chart shows DYN not far from the upper limits of its base at 10. The major resistance comes in at just over 17. (chart courtesy of Horsey, Salisbury MD 21801)

NOTES & QUOTES: One of the early pioneers in technical analysis was John Magee, co-author of the technical classic, "Technical Analysis of Stock Trends." Back in the early 1950s John Brooks wrote a feature length article for the New Yorker magazine on John Magee, and that article went a long way towards making technical analysis respectable. When I first started Dow Theory Letters, the Dow Theory and technical analysis were considered a branch of Black Magic, and most investors and institutions avoided the technical approach as if it were the plague.

At any rate, most serious students of the stock market owe a lot to John Magee (I know I do, because I used to speak to him on the phone at least every other week back in the '50s). One of my subscribers, Dr. L.A.W. of Massachusetts, informs me that John Magee is in a nursing home, suffering from old age, a few geriatric problems and probably suffering from years of wrestling with thousands of stock charts. Many of my subscribers have followed or used John's skills, and if you would like to write him a few words of encouragement, write to John Magee, c/o Ring So. Nursing Home, 55 Mill St., Springfield Mass. 01108. I am sure that John would appreciate a few encouraging words. John, get well!

IS ANYTHING WRONG? If it's true that "a bull market climbs a wall of worry," then this bull market has all the ammunition it needs. What's really happening? Here's what I see. First, the debts and deficits continue to build. The Federal debt is now in the $1.4 trillion zone, and annual deficits of $200 billion and up are projected as far as the eye can see.

As I've said before, supporting the Federal debt structure is now costing us around $2.5 billion A WEEK. That kind of service charge is basically deflationary, and I don't care what anyone says (and I'm not even talking about total US debt in all areas which is probably around $7 billion). In fact, I would say that the only thing that is holding off a deflationary cave-in is the huge annual deficits which are basically inflationary and seem to counter-act the deflationary force of the total debt.

OK, that's one area. Then another worry is the $900 billion total debt of the less-developed nations. Nobody knows how the servicing of this debt will be accomplished, but during a primary bull market many marvelous things occur. I've been writing about the debt build-up for so long that it bores me, but now that everyone else is writing about the debt–I guess I've just ceased my efforts. I don't begin to know how it's all going to work out, and frankly, I'm tired of worrying. So I watch my charts and put more and more faith in the markets. As long as we're in a bull market, I feel at peace. And when the bull gives way to the bear, I'll do the best I can for me and my subscribers.

Then there's Russia. Russia has a single purpose in mind, to prove that Communism is the wave of the present and more importantly the wave of the future. Russia has a controlled society. She draws up a plan, and she follows it. You don't like the plan–then welcome to the latest Russian psychiatric ward. Here in the US we argue, we debate, we respond, we compromise. But we don't get the job done, and that worries me.

Any idiot can see or sense the balance of power switching. Militarily, Russia is increasing the gap, and we are now debating whether to try to catch up or not. I feel that the US is basically asleep on the Russian military build-up. Churchill wrote a book entitled, "While England Slept" prior to World War II. I wonder if we won't see a new book in the next year or so entitled, "While America Slept." The current anti-defense attitude espoused by many liberals is based on the thesis that Russia (1) wants to get together with us, (2) she doesn't really care whether Communism triumphs, (3) she will change her plans to accommodate the US. To all three I say, "Dream on, it's not going to work that way."

Next, let's consider Central America and the various nations under states of siege by Communist forces (internal or external). A lot of these nations are broke; they can't pay for US weapons and supplies. So we are now giving them grants in an effort to insure that they can defend themselves. A mighty debate is materializing out of the US policy of giving military aid to anti-Communist forces. And frankly, I don't have any brilliant answers to the problem of internal Communist takeovers. And I'm not sure anyone else does either.

The fact is that we're moving into the most massive defense build-up in US history. The build-up is going to be far bigger (in terms of dollars) than Vietnam. And it's going to continue as far into the future as we can see. Furthermore, we ended

the Vietnam War when we were fed up with it. The current military build-up is not going to end that way, because we are responding to the Russian build-up, and that's not going to end. We're in a war of military high-technology, and it is very probable that if Russia gains undisputed dominance of space she will also dominate the world.

It's dawning on certain advanced thinkers that we can't allow Russia to pass us totally by in military technology. Not unless we want to see this country become a third class power such as England. And if we give up on the defense situation, that's exactly where we're headed.

So these are just a few of the worries that this bull market can climb on. I could list a dozen more, but I have presented some of the biggies.

Am I optimistic? Am I pessimistic? I'll say it again. I'm neutral. I don't have any great answers to how the debts or the deficits or the military situation should be handled. I used to think I had all kinds of answers, but the problems got bigger than even I thought they would. So now I watch the Averages, I watch the PTI, I talk to my brilliant friends, and I sit on the beach in La Jolla and meditate as the waves roll in.

I guess that's why I love the sea. Those waves were rolling in when Jesus was a boy, and they were rolling in when Neanderthals were stalking the face of the earth. And they'll be rolling in a million years from now, when maybe even gold won't be considered money. Mankind has advanced in many ways even in my lifetime, but basically it's still "off it's rocker."

Forgetting money, I'll confess that I have a real stake in the future of the planet. I have five children ranging (are you ready for this) from age 27 down to age 2½. My only boy, Ryan, is now 5½ years old. The other day I looked at him and I said, "Ryan, you sure have your work cut out for you. It may be up to you to save humanity." He smiled and said, "OK, Dad." I'm absolutely certain that Ryan is smarter than I ever was at his age, and I was pretty smart. So maybe, just maybe he'll come up with some workable answers. Somebody had better, that's for sure.

GOLD & INFLATION: My old friend, Harry Browne, seems to be somewhat into my unconscious and I into his. Anyway, the two of us have been skeptical to bearish on gold for quite some time. In analyzing the gold picture, I have used the technical approach along with some fundamentals, and Harry has used the fundamental approach along with some technicals. But two facts are clear–(1) The two of us have been rather alone (outcasts) in the hard-money movement, and (2) we have agreed on the precious metals picture.

In his latest report (Harry Browne Special Reports, Box 5586, Austin TX 78763) Harry notes that it is paradoxical that years ago with inflation rates of 5% to 8% people were willing to make long-term loans without any inflation premium. Why is this? It's because after years of inflation, lenders are "convinced" that it's only a matter of time before inflation starts up again. Nobody's going to catch those lenders being suckered again!

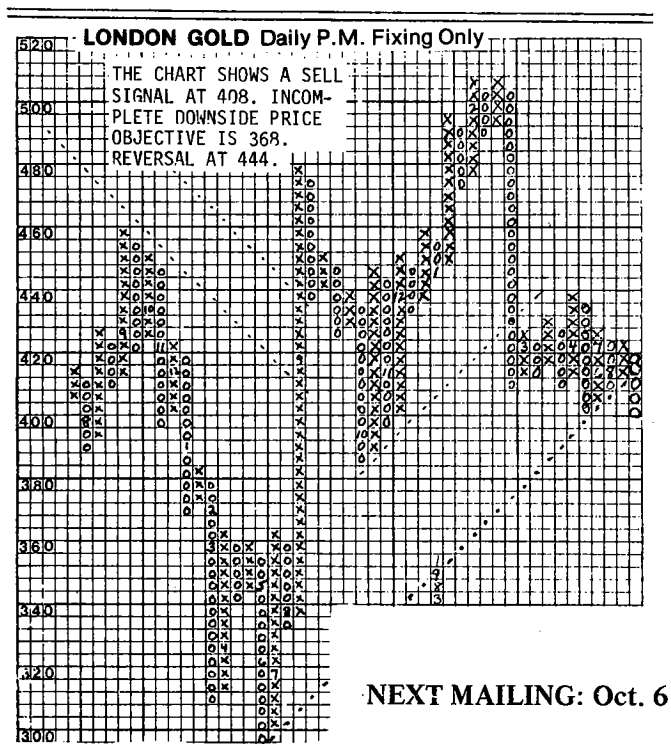
There's only one problem. When everyone zero's in on the act, the act is very likely to be over. As Harry says, "Today there's a healthy concern about inflation. . . . in the meantime, the widespread concern about the inflationary effects of federal deficits and monetary stimulation means that interest rates and gold prices already contain inflation premiums. Neither interest rates nor gold prices are likely to go very much higher if inflation turns out to be only as bad as expected."

Then Harry adds, "Buying gold today because of concern for monetary policy and future deficits is almost like buying at the top–in that one is buying for reasons that are common knowledge. When one buys at the bottom, he normally has opinions that aren't shared by the general public."

So there it is, the fundamental reason for being skeptical about a new bull market in gold. Those who buy gold and silver here in expectation of future inflation are simply hedging against "what everybody knows has to happen." But what everybody knows ceases to be a factor in the market.

In this same report Harry Browne includes a beautiful chart showing the 12-month change in US inflation (via the Consumer Price Index) going back to the early 1900s. Although Harry doesn't include a comment about this chart, I will. Drawing a trendline connecting four important bottoms, it is obvious that the year-to-year inflation rate has plunged below that trendline. How is it that almost nobody recognizes this? Is this reversal of a 61 year trend simply a mistake, an aberration? Or is it highly significant? I don't know, but I do think it is interesting in view of the almost universally held belief that inflation will shortly return. So much for the fundamental background for gold and silver.

Turning to the point & figure gold chart (chart courtesy of Chartcraft, Larchmont NY), note that the latest gold action severed the bullish trendline that rises from the 300 low. The last vertical line of O's hits the 404 box. Any fix at 400 or below will complete what is already a very bearish formation. To buy or hold gold here is to totally ignore the technical picture. That's a personal choice, but you can't hold gold at this point and still claim that you "follow the market." (Note: my gold-to-common stock ratio rendered a sell signal for gold last week–in favor of common stocks over gold. This has, in the past, proved to be a negative mode for gold).



NEXT MAILING: Oct. 6

Late Notes: The market closed on Friday, Sept. 16 with the PTI at a record 1745 and with the cumulative most-active stock index also at a record high. The action is bullish--any way you look at it.